



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE PERSONNEL CABINET'S
PAYROLL AND PERSONNEL FUNCTIONS**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE PERSONNEL CABINET'S PAYROLL AND PERSONNEL FUNCTIONS
FOR THE YEAR ENDED JUNE 30, 2000

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Personnel Cabinet's payroll and personnel functions.

Among other broad responsibilities, the Personnel Cabinet is responsible for the following:

- Providing executive policy and management support to the departments/divisions of the Cabinet and the Commonwealth;
- Promulgating administrative regulations;
- Conducting investigations on all matters relating to the personnel laws and rules;
- Maintenance of central personnel files;
- Processing personnel documents and position actions; operating and maintaining a uniform payroll system;
- Certifying payrolls;
- Monitoring and assisting state agencies in complying with the provisions of the Federal Fair Labor Standards Act;
- Preparing and maintaining job classification and compensation plans for state employees, including the review of all personnel position actions, job audits, revision of class specifications, and salary surveys;
- Coordinating and implementing employment performance evaluation systems through state government.

The Commonwealth of Kentucky employed 42,960 people for the fiscal year ended June 30, 2000, at a cost of \$1,716,917,357. These figures amounted to an increase of 1.72% and .07% respectively.

SUMMARY OF AUDITOR'S RESULTS:

Financial Statement Accounts

Reportable Conditions:

There were no new audit findings for FY 2000. However, problems noted in past audits continue to exist. Procedures relating to logical access security continues to be a problem, with exceptions being noted in the Application Access System and Customer Information Control System (CICS), as well as Personnel libraries, production data, and security files.

Other Matters:

There were no new Other Matter findings for FY 2000. We noted continuing problems with the Administrative Office of the Courts concerning internal controls over timesheets. We also noted continuing problems with internal controls over redeposits of checks. The Administrative Office of the Courts has, however, developed and issued procedures that should clear these weaknesses in the next audit.

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INTRODUCTION

PERSONNEL CABINET INTRODUCTION FOR THE YEAR ENDED JUNE 30, 2000

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and generally accepted auditing standards. The scope of the statewide single audit for the year ended June 30, 2000, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Personnel Cabinet, to the extent necessary to consider and test the internal accounting and administrative control systems as required.

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.

List of Abbreviations/Acronyms Used In This Report

AOC	Administrative Office of the Courts
APA	Auditor of Public Accounts
CFDA	Catalog of Federal Domestic Assistance
CICS	Customer Information Control System
FY	Fiscal Year
KRS	Kentucky Revised Statutes
NA	Not applicable
OMB	Office of Management and Budget
PERS	Personnel Cabinet
MARS	Management Administrative Reporting System
UPPS	Uniform Payroll and Personnel System
U.S.	United States

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Carol Palmore, Secretary, Personnel Cabinet

Report on Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2000, we have audited payroll expenditures as recorded in MARS for the general, special revenue, and internal service funds. We have also audited accrued leave obligations, accrued payroll expense, and applicable note disclosures of the Personnel Cabinet, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated February 28, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of the Personnel Cabinet's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted *Government Auditing Standards*.

Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of General Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Personnel Cabinet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider being material weaknesses.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

February 28, 2001

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PERSONNEL CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which included the Personnel Cabinet, as of and for the year ended June 30, 2000.

Internal Control Over Financial Reporting: Our consideration of the Personnel Cabinet's internal control over financial reporting disclosed two reportable conditions as described in the Summary Schedule of Prior Audit Findings.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under government auditing standards.

Federal Awards and Schedule of Expenditures of Federal Awards

This section is not applicable to the Personnel Cabinet.

Identification of Major Programs Audited

This section is not applicable to the Personnel Cabinet.

Dollar Threshold Used To Distinguish Between Type A And Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$14 million; however, there were no programs applicable to the Personnel Cabinet.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

There were no financial statement audit findings.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**PERSONNEL CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Findings	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 98	98-PERS-3	The Personnel Cabinet Should Complete a Disaster Contingency Plan	N/A	\$0	The Cabinet has adequately insured computer equipment, as well as, identified and documented specific procedures for critical business recovery functions.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 99 FY 98 FY 97 FY 96 FY 95	98-PERS-1	The Personnel Cabinet Should Implement Adequate Logical Access Security For The Unified Personnel And Payroll System (UPPS)	N/A	0	Exceptions were again noted during the Application Access System testing for FY 2000. Procedures for Customer Information Control System (CICS) access were not consistently followed. Testing indicated that update access to Personnel libraries, production data, and security files was not restricted to Personnel staff only.

(3) Corrective Action Taken is significantly different from corrective action previously reported:

No findings for this section.

**PERSONNEL CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Findings	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
<i>(4) Audit finding is no longer valid:</i>					
FY 98 FY 97 FY 96 FY 95 FY 94	97-Personnel-8	Logical Access Control Over the Unified Personnel and Payroll System Should Be Strengthened	N/A	\$0	The agency has not yet resolved the problem. This comment has been superseded by 98-PERS-1.
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
No findings for this section.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 98	98-PERS-4	AOC Should Improve Controls Over Timesheets	N/A	0	Personnel Manager sent memorandum to officials stressing importance of accurate record keeping. Although agency has made strides in correcting this weakness, this memo was not sent until the 3 rd quarter of FY 2001.

**PERSONNEL CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Findings	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
FY 98	98-PERS-5	AOC Should Improve Controls Over Re-Deposits	N/A	\$0	Personnel Manager is following new procedures to allow for more timely processing of checks. Corrective action not implemented until 3 rd quarter of FY 2001.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid:

No findings for this section.